

INCLUSIVE FINANCIAL EMPOWERMENT FOR MSMEs: STRENGTHENING CAPACITY FOR SUSTAINABLE GROWTH THROUGH DIGITAL FINANCIAL LITERACY AND FINANCING

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ABSTRACT

This community development initiative aimed to enhance Micro, Small, and Medium Enterprises (MSMEs) in Indonesia through increased financial inclusivity and digital financial literacy, addressing challenges in sustainable growth. With a structured approach, the program collaborated with government-backed financial institutions, specifically the Pusat Investasi Pemerintah (PIP) and Pegadaian, to broaden access to tailored financing schemes. Digital financial literacy workshops were conducted to empower MSME, especially in Bandung urban area and rural area across West Java, with the skills to leverage financial technology for effective business management. The methodology encompassed participatory training, counseling, and monitoring to ensure practical knowledge application among 67 MSMEs participants across Bandung. Evaluation showed substantial improvements: 80% of participants secured financing through UMi and Pegadaian's gold-pawn schemes, and 75% exhibited enhanced proficiency in digital financial tools, resulting in notable business efficiency gains. Despite limitations in digital infrastructure, particularly in rural areas, the program underscored the significance of accessible financial services and digital literacy for MSME resilience. Future recommendations emphasize expanding digital infrastructure, continuous training, and inclusive financing initiatives to foster MSMEs contributions to Indonesia's economic sustainability.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a central role in the Indonesian economy, contributing 61.07% to the Gross Domestic Product (GDP) and absorbing 97% of the workforce in the non-formal sector (Ministry of Cooperatives and SMEs, 2023). Despite this, many MSMEs still face challenges in gaining access to adequate sources of financing. Limited access to financing, low financial literacy, and a lack of understanding of digital technology, are factors that hinder MSMEs from adapting to changes in the global economy which increasingly relies on digitalization.

According to the Financial Services Authority report (OJK, 2022), most MSMEs, especially in rural areas, cannot yet utilize technology-based financial services such as financial technology (fintech), which should facilitate their access to financing. In this digital era, digital-based financial literacy is one of the keys to increasing the effectiveness of MSMEs financial management, so that they can survive and grow sustainably.

The main obstacles faced by MSMEs in achieving sustainable growth are the low inclusiveness of access to financing that suits their needs, as well as the low level of digital-based financial literacy. A limited understanding of digital financial management means that many MSMEs cannot maximize their growth potentially, while access to financing services is often unequally distributed, especially in less developed areas. This causes inequality in the development of MSMEs, which has a direct impact on the regional and national economy.

So, based on existing obstacles and background above, Doctoral Accounting Study Program, Faculty of Economics and Business, Universitas Padjajaran (FEB UNPAD) – Bandung, holds Community Service Program (PKM) that focused on increasing MSMEs capacity. This activity was held at Bandung City Chamber of Commerce and Industry (KADIN) office on October 2-3, 2024 with the theme "*Inclusiveness of Increasing MSMEs Capacity for Sustainable Growth Through Strengthening Digital-Based Financing and Financial Literacy*" in collaboration with Pusat Investasi Pemerintah (PIP) Ministry of Finance of the Republic of Indonesia, Bandung City Chamber of Commerce, and Industry (KADIN Kota Bandung), and PT. Pegadaian (Persero).

The implementation of the activity was based on the spirit of advancing MSMEs, especially in the city of Bandung, that it is such an important knowledge for the MSMEs to know financial recording, financial reporting, and capital aspects, that are still unresolved problems nowadays, also that, this needs to be a concern as well as institutional support to increase the capacity of MSMEs in the future. It is believed that understanding for MSMEs in

terms of recording, financial reporting, and capital is very useful for submitting capital assistance in a non-bank scheme. More beyond, what is unique from this activity is, that it directing MSMEs for non-bankable capital assistance. So, on that basis, it can help MSMEs without making it difficult for them.

In addition, there are five business sectors from MSMEs in these activities, which is fashion, food, beverages, handicrafts, and services sector and product. All the 67 MSMEs participants are fostered business from Bandung City Chamber of Commerce, and Industry (KADIN Kota Bandung). This activity was not only training and capacity building, this activity also provided guidance and registration of Intellectual Property Rights (IPRs) for their product/service brands with various assessments and considerations for selected participants.

These activities that were cross-sector collaboration, can strengthen the capacity of local MSMEs, and of course for the Doctoral students in accounting, it can be able to be a bridge of detailing MSMEs problems and capturing map strategic solutions between the government, MSMEs and the private sector. In accordance of capturing that map strategic solutions, most of the MSMEs businesses that support the household economy and most of whom are women, are also important milestones of the national economy. So that, directing the MSMEs women actors for non-bankable capital assistance, that using Information Technology (IT) from their direct belonging such as cell-phone, is the top priority from Pegadaian as one of the credit distribution institutions from Pusat Investasi Pemerintah (PIP), to mitigate and avoiding them from online loans application which the interest is very strangling the neck (like loan shark), and if necessary, also advocated them with pro-bono.

In other hands, current obstacle for MSMEs actors is how to form a legal entity that can accept investment capital schemes. This is part of the lack of access to knowledge to manage recording and reporting of business results appropriately and periodically as a guideline for business assessment. So, this activity is hoping can be a way for mentoring MSMEs, especially in the city of Bandung, to be able to move up a class in running their businesses in the future.

Strengthening financing through collaboration with institutions such as the Pusat Investasi Pemerintah (PIP) and Pegadaian is one solution to overcome all that obstacles. Both institutions have financing programs that can be accessed by MSMEs, but literacy and inclusiveness are still problems that must be overcome. Thus, a comprehensive approach is needed to improve the ability of MSMEs to access financing, while equipping them with digital-based financial literacy to manage financial resources more effectively.

The objectives of this community service program are:

1. **Increasing Access to Financing for MSMEs** – Expanding MSME access to financing schemes provided by PIP and Pegadaian to support their business development.
2. **Increasing Digital-Based Financial Literacy** – Train MSME players in utilizing digital technology for financial management and financing.
3. **Encouraging Sustainable Growth of MSMEs** – Support sustainable growth by increasing the effectiveness of financial management through digital-based financial literacy.
4. **Building Financial Inclusivity** – Prioritize more inclusive access to financial services for MSMEs in various regions, especially those in rural and less developed areas.

This community service will bring great benefits to the development of MSMEs, especially in terms of increasing inclusiveness and sustainability. By increasing access to easy and appropriate financing, even MSMEs in remote areas will have the same opportunity to develop. Digital-based financial literacy training will help MSMEs manage their cash flow better and increase business efficiency through the use of more modern financial technology.

This program is expected to create a more inclusive and sustainable MSME ecosystem, where small business actors can contribute more to regional and national economic growth. In addition, the involvement of PIP and Pegadaian as strategic partners in strengthening financing will strengthen MSMEs' access to formal financing sources which have been difficult to reach.

LITERATURE REVIEW

Inclusivity in MSME Development

Inclusivity in developing MSMEs is one of the main focuses in encouraging sustainable economic growth. According to Tambunan (2021), economic inclusivity is an effort to ensure that all economic actors, including MSMEs, have equal access to resources, opportunities, and financing. In the context of MSMEs, inclusivity refers to open access to financing, training, and technology to ensure that this sector can participate actively in the digital economy.

The literature shows that this inclusivity is important because most MSMEs, especially those in rural areas, often face structural barriers to accessing formal financial services (World Bank, 2020). By ensuring that MSME actors have fair and equitable access to these opportunities, they will be able to contribute significantly to regional and national economic development.

Strengthening MSME Financing

Strengthening MSME financing is a key element in helping small businesses grow and develop. This strengthening involves providing wider access to business capital, through various financing schemes, such as the People's Business Credit (KUR) which is supported by the government, as well as financial services offered by institutions such as the Pusat Investasi Pemerintah (PIP) and Pegadaian.

Research by Bank Indonesia (2021) emphasizes the importance of inclusive financing schemes for MSMEs, especially through collaboration with formal financial institutions that are able to offer various financing products on terms that are more easily accessible to small businesses. Pegadaian, for example, provides gold pawn products that can be accessed by MSMEs who need fast funds for working capital. Meanwhile, PIP plays a role in distributing micro financing through the Ultra Micro Credit (UMi) scheme, which targets MSMEs that are not yet bankable. Furthermore, according to Aghion et al. (2020), increasing access to financing for MSMEs can increase the resilience of small businesses in facing economic fluctuations, reduce dependence on informal loans, and create more stable growth.

Digital-Based Financial Literacy

Digital-based financial literacy refers to understanding and skills in using financial services provided by digital platforms, including fintech, mobile banking, and financial recording applications (Fatimah, 2022). Good financial literacy not only helps MSMEs understand how to manage cash flow and optimize the use of capital but also allows them to access digital financial services that were previously unaffordable.

In research by Gomber et al. (2020), financial technology (fintech) has proven effective in increasing financial literacy and financial inclusion, especially among MSMEs operating in areas with limited access to traditional banks. Through the use of digital financial applications, MSMEs can more easily carry out transactions, record expenses and obtain information about financing products that suit their needs. Digital financial literacy also encourages the implementation of better risk management and increases operational efficiency, which will ultimately support sustainable growth for MSMEs.

Application of Technology to Strengthen MSMEs

The application of technology to support MSMEs has become an effective way to overcome the various obstacles faced by this sector. Financial technology allows MSMEs to access financing, manage transactions, and carry out financial reporting more efficiently.

According to a McKinsey report (2021), the adoption of digital technology by MSMEs can increase productivity by up to 25%, reduce operational costs, and open access to a wider market.

Previous studies show that by increasing digital-based financial literacy and facilitating more inclusive access to financing, MSMEs can contribute more to sustainable economic growth. Better literacy and access can also reduce the risk of business failure, especially in the face of economic uncertainty.

MATERIAL AND METHOD

Problem Solving Framework

To overcome the obstacles faced by MSMEs, namely limited access to financing and low digital-based financial literacy, this problem-solving framework was designed with a holistic approach that focuses on increasing accessibility and literacy. This framework combines two main approaches: strengthening financing through partnerships with financial institutions such as the Pusat Investasi Pemerintah (PIP) and Pegadaian, as well as digital financial literacy training to help MSMEs manage their finances more efficiently.

This program begins with identifying the problems faced by MSMEs, especially in terms of access to financing and digital literacy. After that, solutions were developed in the form of training and counseling with relevant material, as well as practical implementation to increase financial literacy and use of financial technology. Strengthening financing is carried out by involving financial institutions that have special programs for MSMEs. This framework aims to create sustainable growth for MSMEs through integrated problem solving.

Implementation

This program is implemented in the form of counseling, training and assistance for MSMEs which is carried out directly in several areas that are the target of service. Implementation of activities is divided into several stages:

1. **Counseling and Education Stage:** In this stage, PIP and Pegadaian act as resource persons to provide education regarding financing schemes that can be accessed by MSMEs, such as Ultra Micro Credit (UMi) and pawn services provided by Pegadaian. Apart from that, an understanding of the importance of financial literacy in business management is also provided.
2. **Digital-Based Financial Literacy Training:** MSMEs players are given training regarding the use of digital technology in managing business finances. This training includes the use of mobile banking applications, fintech, and financial recording

applications. MSME players are taught how to use this technology to increase efficiency in managing cash flow and financing.

3. Assistance and Monitoring: After training, assistance is provided to ensure that MSME actors can practice what they have learned. Monitoring was carried out for 3 months to evaluate the effectiveness of the program and measure the increase in MSME access to financing and the use of digital financial technology.

Target

This program targets MSMEs in the Bandung City area and surrounding, with a focus on the trade and services sectors. A total of 67 MSME actors are the main targets in this program, selected based on certain criteria, including those who do not have access to formal financing and have minimal financial literacy. Geographic targets are focused on areas that have limited access to formal financial institutions so that the inclusiveness of access to financing can be increased.

In addition, collaboration with PIP and Pegadaian is expected to reach MSMEs in remote areas, ensuring that they get the same opportunity to develop through inclusive access to financing.

Used Method

The method used in this program involves a participatory and approachable approach problem based. The following are the methods used in program implementation:

1. Participatory Method: In this approach, MSMEs actors are actively involved in all stages of program implementation, from counselling, training, to direct implementation in their businesses. MSMEs players are involved in the learning process through discussions and practical exercises, so that they can immediately feel the benefits of the training provided.
2. Training and Extension Methods: This method is used to provide practical knowledge and skills regarding financial management and access to financing. Training materials are tailored to the needs of MSMEs, with a focus on the use of digital-based financial technology.
3. Monitoring and Evaluation Methods: This method is used to monitor the progress of MSMEs actors in practicing what they have learned, as well as evaluating the effectiveness of the programs implemented. The monitoring results will be used as a basis for providing recommendations for improvement or further program development.

Below are attached some pictures and link of news of these implementation activities:





<https://mediaindonesia.com/humaniora/714027/prodi-doktor-ilmu-akuntansi-unpad-gelar-pkm-fokus-peningkatan-kapasitas-umkm>

Figure 1. The Implementation

RESULT AND DISCUSSION

Results

The community service program with the theme *"Inclusivity in Increasing MSMEs for Sustainable Growth Through Strengthening Digital-Based Financing and Financial Literacy"* was successfully implemented and showed positive results. Based on evaluations carried out on 67 MSMEs involved in the program, the following results were obtained and can be the indicators to claim that there has been success in objectives:

1. Increased Access to Financing: As many as 80% of program participants succeeded in gaining access to financing schemes provided by the Pusat Investasi Pemerintah (PIP) through the Ultra Micro Credit (UMi) program and Pegadaian through the gold pawn scheme. MSMEs players report that access to this financing helps them to expand their businesses, especially in increasing working capital and updating business equipment. How it can be? This activity provided counselling and customer desk from Pegadaian

for all of the MSMEs participants who attended the event, and about 80% of them, filled the applications and directly become partner relationship customer of PT. Pegadaian.

2. **Increasing Digital-Based Financial Literacy:** Approximately 75% of program participants reported an increase in understanding and use of digital-based financial applications. MSMEs that have never previously used financial technology are starting to get used to using mobile banking and fintech applications to monitor cash flow, carry out transactions, and record business expenses. This increased digital literacy directly affects the financial management capabilities of MSME players. How we know it? During the event, the committee distributed a questionnaire about Financial Literacy which participants had to collect after the event was over.
3. **Increasing Business Management Efficiency:** Participants reported that with the use of digital financial technology, the operational efficiency of their businesses increased. As many as 70% of the MSMEs involved recorded a reduction in errors in financial recording and accelerated transaction times, which had a positive impact on business cash flow management. How we know it? During the event, the committee distributed a questionnaire about Business Management Efficiency Literacy which participants had to collect after the event was over.
4. **Participant Satisfaction Level:** The post-program survey showed that 85% of MSMEs were satisfied with the material provided during the training. They consider that knowledge about financing and digital literacy is very relevant to their needs and helps them to be more confident in managing business finances. Business Management Efficiency. How we know it? During the event, the committee distributed a questionnaire about the Satisfaction Level of the activity which participants had to collect after the event was over.

Discussion

The results obtained from this program support findings from related literature which show that strengthening digital-based financing and financial literacy plays an important role in increasing the capacity of MSMEs. According to research by Tambunan (2021), inclusiveness in access to financing can help MSMEs grow and develop faster because they get sufficient capital to fund business expansion. This is proven in the results of this program, where the majority of participants can access financing from PIP and Pegadaian to strengthen their working capital.

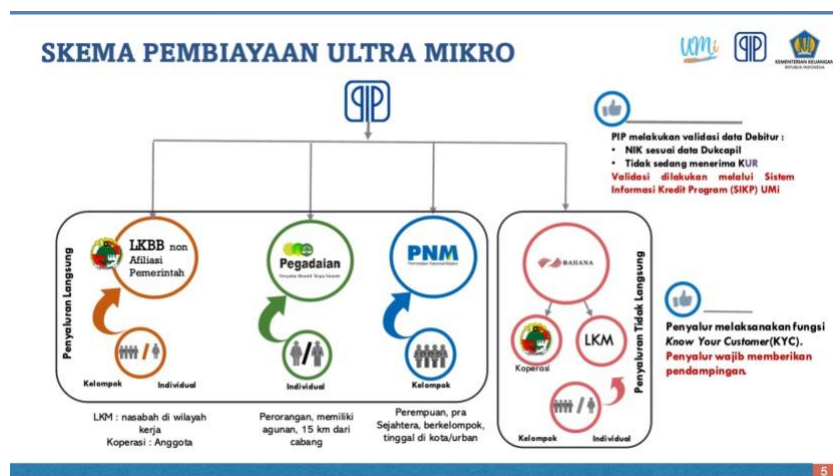
Furthermore, digital-based financial literacy has been proven to increase the efficiency

and resilience of small businesses, as explained by Gomber et al. (2020). In this program,

MSMEs who are trained to use digital financial applications are able to manage their finances better and reduce the risk of recording errors. This is in accordance with McKinsey research (2021) which shows that the adoption of financial technology by MSMEs can increase productivity by up to 25%.

However, there were several obstacles found in implementing this program, which is two main-stream obstacles is; lack of non-bankable capital access and form of legal entity that can accept investment capital schemes for that MSMEs. In other addition things, other obstacles are that digital infrastructure in some areas is still limited. For the example, one of the participants from this activity is difficult in accessing fintech services and digital financial applications, because his MSMEs business is located at the foot of the Ciwidey mountain slopes, that his business is to distributed straw and grass for cattle farm feed supply. This obstacle was also identified by the World Bank (2020), which stated that the biggest challenge in digitalizing MSMEs is the lack of adequate infrastructure, especially in rural areas.

Apart from that, the success of this program also shows that collaboration with formal financial institutions such as PIP and Pegadaian can provide significant benefits for MSMEs. Bank Indonesia (2021) states that partnerships with formal financial institutions that offer special financing products for MSMEs can increase financing inclusiveness. This is also proven in this program, where participants who previously did not have access to formal financial institutions can take advantage of financing products from PIP and Pegadaian. Attached below are some slides of the ultra-micro financing scheme presented by PIP at the event and also the benefits of ultra micro financing from Pegadaian with various credit programs and KUR-Sharia:



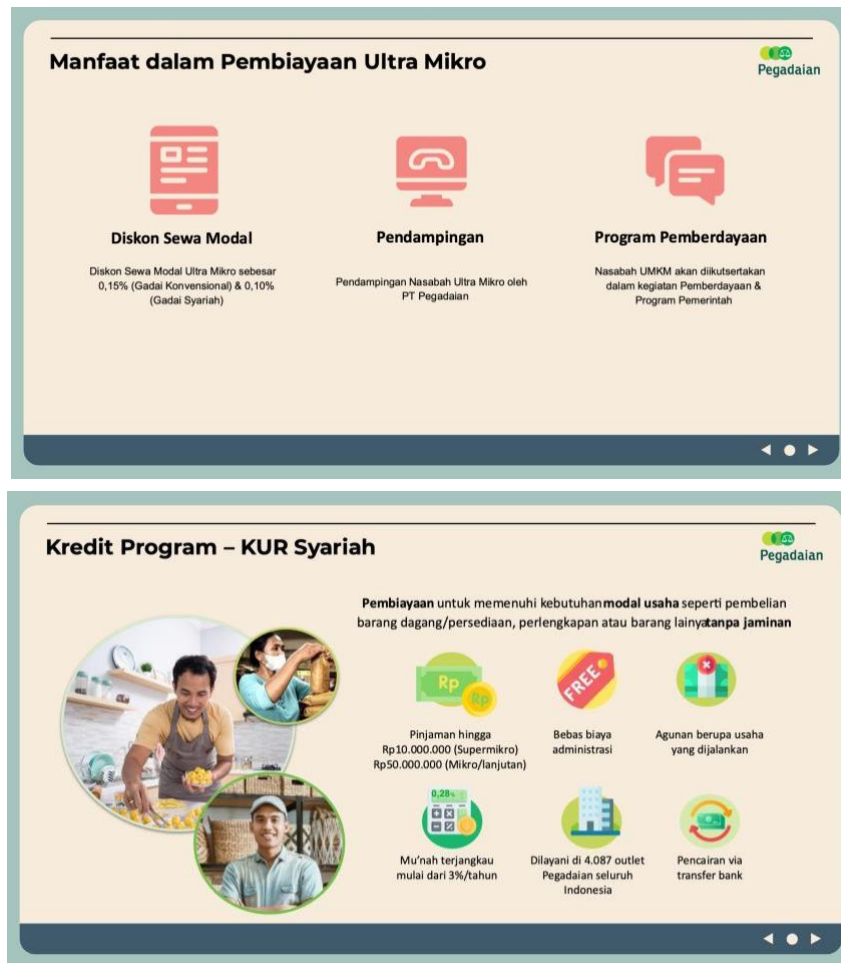


Figure 2. The Scheme

To improve implementation in the future, stronger efforts are needed to increase access to digital infrastructure in remote areas, as well as expand the reach of this program to a wider range of MSMEs. Strengthening partnerships with fintech institutions and digital banks is also expected to help MSMEs utilize financial technology to increase their business growth.

CONCLUSION AND RECOMMENDATION

Conclusion

This community service program succeeded in achieving the main goal of increasing the inclusiveness of MSMEs for sustainable growth through strengthening digital-based financing and financial literacy. From the results of program implementation, it is proven that collaboration with financial institutions such as the Pusat Investasi Pemerintah (PIP) and Pegadaian significantly helps MSMEs gain access to more inclusive sources of financing. As many as 80% of participants succeeded in getting access to relevant financing, and 75% of them showed improvements in digital-based financial management.

Furthermore, digital-based financial literacy training has proven effective in increasing the efficiency of MSMEs business management. The use of financial technology, such as mobile banking and fintech applications, helps MSMEs to be more accurate in financial recording and cash flow management. This shows that with better financial literacy, MSMEs can reduce the risk of business failure and increase sustainable growth. The obstacles faced during the program, such as lack of non-bankable capital access and form of legal entity that can accept investment capital schemes for that MSMEs, and also limited digital infrastructure in remote areas, show that inclusiveness in access to digital financial technology still requires special attention, especially in rural areas.

Recommendation

Based on the program results and findings from supporting literature, the following are several recommendations that can be considered for further development:

1. **Development of Inclusive Financing Schemes:** Expansion of inclusive financing schemes, such as Ultra Micro Credit (UMi) and pawn services provided by Pegadaian, can be expanded so that more MSMEs can access them. This scheme must be accompanied by adequate education regarding risk and financial management so that MSMEs can utilize financing effectively (Bank Indonesia, 2021).
2. **Continuous Training and Mentoring:** The digital financial literacy program needs to be continued and expanded with ongoing assistance to ensure that MSMEs can continue to utilize financial technology optimally. Partnerships with financial institutions and fintech must continue to be developed to provide access to the latest tools and technology that are relevant to the needs of MSMEs.
3. **Continuous Assistance and Facilitation;** in establishing a legal entity and its continuous advocacy
4. **Digital Infrastructure Improvement:** Greater investment is needed in developing digital infrastructure, especially in remote areas, to ensure that MSMEs players in all regions have equal access to digital-based financial technology. This is important to support digital transformation evenly among MSMEs (World Bank, 2020).
5. **Collaboration with Financial Technology Institutions (Fintech):** Fintech institutions can play a bigger role in providing services that are easily accessible to MSMEs, especially in terms of financing and financial management. This collaboration can open up more opportunities for MSMEs to utilize financial technology to accelerate their business growth (Gomber et al., 2020).

By continuing and strengthening these recommendations, it is hoped that MSMEs in Indonesia can develop sustainably, and be able to adapt to the increasingly competitive dynamics of the digital economy.

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